

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

ILLINOIS INDEPENDENT TELEPHONE ASSOCIATION	)	
	)	
Petition for initiation of an investigation of the necessity of and the establishment of a Universal Service Support Fund in accordance with §13-301(d) of the Public Utilities Act	)	Docket No. 00-0233
	)	
Illinois Commerce Commission On Its Own	)	
	)	
Investigation into the necessity of and, if appropriate, the establishment of a Universal Support Fund pursuant to Section 13-301(d) of the Public Utilities Act.	)	Docket No. 00-0335
	)	

DIRECT TESTIMONY

OF

GORDON J. KRAUT, JR.

ON BEHALF OF

WOODHULL COMMUNITY TELEPHONE COMPANY

OFFICIAL FILE

April 20, 2001

ILL. T. Co. 00-0233/0335  
Woodhull Telephone Co. 1  
Date 6-19-01 to order CB

1   **Q.   Please state your name and business address.**

2   A.   My name is Gordon J. Kraut, Jr. and my business address is 3220 Pleasant Run,  
3       Springfield, Illinois 62707.

4   **Q.   By whom are you employed?**

5   A.   I am the consulting manager with GVNW Consulting, Inc. GVNW Consulting, Inc.'s  
6       principal business is telecommunications consulting for small independent telephone  
7       companies and we have provided consulting services to Woodhull Community  
8       Telephone Company for several years.

9   **Q.   Please describe your educational background.**

10  A.   I graduated from Edgewood College in May of 1988 with a Bachelor of Science  
11       Degree in business with an emphasis in accounting. I earned a master's in business  
12       administration from Edgewood College in 1991.

13  **Q.   Please provide your background in telecommunications.**

14  A.   In 1988 I began my telecommunications career with TDS, Inc. as an internal auditor.  
15       In 1993 I was promoted to Senior Internal Auditor and in 1994 I was promoted to  
16       Associate Manager of Accounting in TDS Telcom. Early in 1996 I was promoted to  
17       the position of Manager of Revenue and Earnings in the Government and Regulatory  
18       Affairs Group. I joined GVNW, Inc. on October 20, 1997 and in my current position  
19       I consult with independent telephone companies and provide financial analysis and  
20       management advice in the areas of concern to these companies.

21  **Q.   On what company's behalf is this testimony submitted?**

22  A.   This testimony is submitted on behalf of Woodhull Community Telephone Company.

1 **Q. Have you prepared the Illinois Universal Service funding calculations for**  
2 **Woodhull Community Telephone Company using the format agreed to by the**  
3 **Staff and the IITA?**

4 **A. Yes, I have. It is attached as Woodhull Community Telephone Company Exhibit 1,**  
5 **Schedule 1.01 and consists of 3 pages.**

6 **Q. Did you complete Woodhull Community Telephone Company Exhibit 1,**  
7 **Schedule 1.01 in accordance with the instructions and based on Woodhull**  
8 **Community Telephone Company's ICC Form 23A or other information filed**  
9 **with the Commission for the year ended December 31, 2000?**

10 **A. Yes. Woodhull Community Telephone Company Exhibit 1, Schedule 1.01, was**  
11 **based on the ICC Form 23A filed with the Commission.**

12 **Q. Were these entries on Exhibit 1, Schedule 1.01 taken from books and records**  
13 **kept by the company in the normal course of its business and recorded at the**  
14 **time of the event?**

15 **A. Yes.**

16 **Q. Is Woodhull Community Telephone Company Exhibit 1, Schedule 1.01 true and**  
17 **correct to the best of your knowledge, information and belief?**

18 **A. Yes it is.**

19 **Q. Based on the responses and content of Woodhull Community Telephone**  
20 **Company Exhibit 1, Schedule 1.01, has Woodhull Community Telephone**  
21 **Company provided Staff with certain additional documents?**

1 A. Yes. I have provided the Staff with a copy of Woodhull Community Telephone  
2 Company's December 31, 2000, Trial Balance which we have requested be treated as  
3 confidential and proprietary.

4 Q. Have you provided the requisite information from Woodhull Community  
5 Telephone Company Exhibit 1, Schedule 1.01 to Mr. Schoonmaker for his use in  
6 compiling the composite results for all companies seeking funding in connection  
7 with his testimony?

8 A. Yes, I have.

9 Q. Does page 1 of Woodhull Community Telephone Company Exhibit 1, Schedule  
10 1.01 reflect any adjustments being proposed by Woodhull Community  
11 Telephone Company?

12 A. Yes, an adjustment has been made on line 14, total operating revenues, in the amount of  
13 \$103,397. The first adjustment is standard adjustment #3 as listed in Bob Schoonmaker's  
14 testimony for out-of-period adjustments. Woodhull booked \$81,324 of revenues related  
15 to a prior period in 2000 in account 5084.100 ISCECA DEM Weighting. Woodhull  
16 should have booked \$193,193 of revenue in account 5084.100, ISCECA DEM  
17 Weighting, but due to this prior period adjustment Woodhull booked \$274,517. This  
18 overstates 2000 revenue as shown in ICC Form 23A, and this adjustment removes  
19 \$81,324 of revenue.

20 The second adjustment that was made is for a true up in prior period Carrier Common  
21 Line (CCL) Revenues that Woodhull recorded in 2000 financial statements. This is listed  
22 as standard adjustment #3 in Robert C. Schoonmaker's testimony for out-of-period  
23 adjustments. This adjustment removes \$22,073 of prior period revenue booked in 2000

1 and can be found in account number 5082.13, NECA Prior Period CCL. in Woodhull's  
2 December 31, 2000, Trial Balance. Both adjustments are summarized in Schedule 1.02.

3 **Q. Based on the format agreed to by the Staff and the IITA, what was Woodhull**  
4 **Community Telephone Company's rate of return for the calendar year 2000?**

5 . 6.22%

6 **Q. Does Woodhull Telephone Company concur with Mr. Schoonmaker's**  
7 **recommendation that its affordable rate be established at the current weighted**  
8 **average rate for residential and business service?**

9 A. Yes.

10 **Q. Does that conclude your direct testimony on behalf of Woodhull Community**  
11 **Telephone Company?**

12 A. Yes it does.

**Woodhull Community Telephone Company**  
**Illinois Universal Service Funding Calculation**  
**Based upon ICC Form 23A Report Data for December 31, 2000**

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustment</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 1,390,934	\$ -	\$ 1,390,934
2	Materials and Supplies Inventory	Page 2, 13-Month Average	30,284		30,284
3	Customer Deposits	Form 23A, P 8, 4040	9,938	-	9,938
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	(4,063)	-	(4,063)
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,415,343
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	628,854	-	628,854
8	Less: Depreciation Expense	Form 23A, P 13, 6560	168,723	-	168,723
9	Total WC Operating Expense	line 7 - line 8	460,131	-	460,131
10	WC OE Requirement	line 9 * 45 / 360			57,516
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			57,516
13	Total Rate Base	line 5 + line 12			1,472,859
14	Total Operating Revenues	Form 23A, P 11, Total	1,103,503	(103,397)	1,000,106
15	Less: Illinois High Cost Fund		215,909	-	215,909
16	Net Operating Revenues	line 14 - line 15	887,594	(103,397)	784,197
17	Total Operating Expenses	Form 23A, P 14, Total	628,854	-	628,854
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	5,811	-	5,811
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	252,929	(103,397)	149,532
21	Income Tax Expense	line 34			57,927
22	Net Operating Income	line 20 - line 21			91,605
23	Return on Rate Base	line 22 / line 13			6.22%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			165,107
26	Adj to Achieve Target Return on RB	line 25 - line 22			73,502
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			119,985
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			149,532
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			10,736
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			138,796
33	Federal Income Tax Expense	line 32 * 34.00%			47,191
34	Total Imputed Income Tax Expense	line 31 + line 33			57,927
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

Woodhull Community Telephone Company  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2000  
Material & Supplies Worksheet and Other Information

Line #

1	December-99	\$72,754
2	January-00	\$72,754
3	February-00	\$72,754
4	March-00	\$17,218
5	April-00	\$17,218
6	May-00	\$17,218
7	June-00	\$17,218
8	July-00	\$17,218
9	August-00	\$17,218
10	September-00	\$17,218
11	October-00	\$17,218
12	November-00	\$17,218
13	December-00	\$20,466
14	13 Month Average	\$30,284

**Sale/Lease Back Arrangement**

☐  
☐

The company does not have any sale(s)/lease back arrangement.  
The company does have sale(s)/lease back arrangement and has provided additional information to staff.

**Lease Agreement with Affiliates**

☐  
☐

The company does not have any lease agreements with affiliates.  
The company does have lease agreements with affiliates and has provided additional information to staff.

**Trial Balances**

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

Woodhull Community Telephone Company  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2000  
Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 35,099
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 89,998
3	State Access Revenues	Trial Balance 12/31/00	\$ 305,185
4	State High Cost Support	Exhibit X, Line 15	\$ 215,909
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 5,251
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 651,442
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 35,270
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 216,928
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 131,218
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 19,393
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 402,809
12	Misc Revenues	Trial Balance 12/31/00	\$ 49,250
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 1,103,501</u>



Woodhull Community Telephone Company  
Summary of Adjustments

Adjustment 1	Dr.	Cr.
Illinois DEM Fund Revenue	81,324	
To adjust out a prior period adjustment		
Adjustment 2		
CCL Revenue	22,073	
To adjust out a prior period adjustment		